



BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

Arizona Corporation Commission

DOCKETED

JUL 28 2006

DOCKETED BY

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IN THE MATTER OF THE APPLICATION
OF SOUTHWEST GAS CORPORATION
FOR APPROVAL OF A CLARIFICATION
OF A SPECIAL GAS PROCUREMENT
AGREEMENT WITH TUCSON ELECTRIC
POWER COMPANY.

DOCKET NOS. G-01551A-05-0885,
E-01933A-05-0885

DECISION NO. 68852

ORDER

Open Meeting
July 25 and 26, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On June 30, 2006, Southwest filed for Commission approval of a clarification of a special gas procurement agreement ("SGPA") with Tucson Electric Power Company ("TEP"). TEP uses natural gas to generate electricity.

3. Southwest has served TEP through SGPAs for a number of years. In Decision No. 68390 (January 5, 2006), the Commission approved the most recent SGPA between Southwest and TEP. The agreement between Southwest and TEP is currently being extended on a month-to-month basis, with either party able to terminate the agreement with 30 days notice. Under the SGPA, Southwest purchases natural gas for TEP and uses Southwest's interstate pipeline capacity portfolio to deliver natural gas to TEP.

1 4. Southwest's filing in this application requests approval of a clarification of the
2 existing SGPA with TEP to recognize penalties on the El Paso Natural Gas Company ("El Paso")
3 pipeline system that Southwest may incur while providing service to TEP under the SGPA.
4 Currently the SGPA contains a number of pricing and other terms and conditions defining how
5 Southwest provides service to TEP. However, the SGPA does not specifically indicate if or how
6 Southwest is to pass along to TEP the penalties Southwest incurs from El Paso to provide service
7 to TEP.

8 5. In the current El Paso rate proceeding before the Federal Energy Regulatory
9 Commission ("FERC"), El Paso has proposed a variety of new services and related penalty
10 provisions that significantly reduce the flexibility shippers such as Southwest have on the interstate
11 pipeline system. Under the new service regime on El Paso, which has been largely accepted by
12 FERC (subject to requests for rehearing by the ACC and a variety of other parties), Arizona
13 shippers on El Paso are exposed to significant risk of incurring penalties on the El Paso system if
14 their daily deliveries of natural gas off the El Paso system do not fall within a variety of
15 parameters.

16 6. Southwest and TEP coordinate the scheduling of natural gas supplies to try to avoid
17 any penalties being incurred. But TEP could cause Southwest to incur penalties on the El Paso
18 system if TEP's consumption varies from expected levels due to changing weather conditions,
19 plant outages, or other reasons. The massive changes taking place on the El Paso system are
20 having and will continue to have a variety of implications for Arizona utility customers, with this
21 application by Southwest reflecting one such implication.

22 7. In light of the changing operational conditions on the El Paso pipeline system,
23 Southwest and TEP have jointly signed a letter indicating that they agree that Southwest can pass
24 along penalties to TEP which are directly related to TEP's gas supply service provided by
25 Southwest and that such penalties will be recognized as part of the gas cost component under the
26 SGPA. A copy of this letter is attached to Southwest's application in this proceeding.

27 8. Staff has reviewed Southwest's application and the attached letter. Staff believes
28 that the agreement between Southwest and TEP, allowing Southwest to pass to TEP applicable

1 penalties incurred by Southwest as a result of its gas supply service to TEP is a reasonable solution
2 to dealing with the risk of penalties being incurred on the El Paso pipeline system.

3 9. Staff has recommended approval of the letter agreement between Southwest and
4 TEP.

5 CONCLUSIONS OF LAW

6 1. Southwest is an Arizona public service corporation within the meaning of Article
7 XV, Section 2, of the Arizona Constitution.

8 2. The Commission has jurisdiction over Southwest and over the subject matter of the
9 application.

10 3. The Commission, having reviewed the application and Staff's Memorandum dated
11 July 7, 2006, concludes that it is in the public interest to approve the letter agreement between
12 Southwest and TEP.

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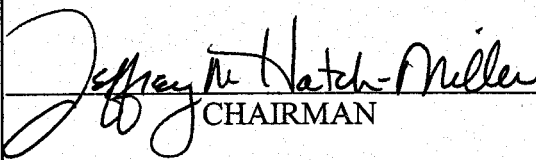
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ORDER

IT IS THEREFORE ORDERED that the letter agreement between Southwest and TEP be and hereby is approved.


IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN


COMMISSIONER

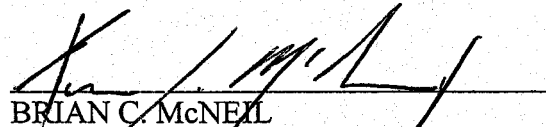
Commissioner Spitzer resigned
effective 7-21-2006


COMMISSIONER

COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 28th day of July, 2006.


BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:RGG:lhvJMA

1 SERVICE LIST FOR: Southwest Gas Corporation and Tucson Electric Power Company
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